STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion	)	
-vs-	)	Docket No. 00-0579
Central Illinois Light Company	)	
Proposal to eliminate its Electric Fuel Adjustment Clause and include and fuel and power supply charges in base rates.	)	

Rebuttal Testimony and Schedules of

James R. Dauphinais

On behalf of

Illinois Industrial Energy Consumers

Project 7474
December 2000

BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

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Rebuttal Testimony of James R. Dauphinais

Q PLEASE STATE YOUR NAME.

A James R. Dauphinais.

Q ARE YOU THE SAME JAMES R. DAUPHINAIS THAT PRESENTED DIRECT TESTIMONY ON BEHALF OF THE ILLINOIS INDUSTRIAL ENERGY CONSUMERS (IIEC) IN THIS PROCEEDING?

A Yes, I am.

Q DO YOU HAVE ANY CORRECTIONS TO YOUR DIRECT TESTIMONY AND SCHEDULES THAT YOU HAVE PREVIOUSLY PRESENTED IN THIS PROCEEDING?

A Yes, I do. It has been recently discovered that there is a calculation error on Page 1 of IIEC Schedule 4, which was prepared under my direction. The specific error was in regard to calculating line 4 for September 2000 on Page 1 of Schedule 4. I have

attached to this rebuttal testimony a corrected copy of Schedule 4 (**Confidential**). This correction only affects the calculation of the downward adjustment I have recommended to the cost of the energy CILCO will be required to purchase to meet its load forecast during the 12-month test period in excess of the energy provided by its own generation facilities and the CIPS contract. It increases the downward adjustment from 0.088¢ per kWh to 0.091¢ per kWh. There is no other material impact on my testimony.

To implement the impact of the correction on my recommendations requires the following two changes to my direct testimony.

1. On Line 13 of Page 6, replace "0.088¢" with "0.091¢".
2. On Line 17 of Page 6, replace "1.093¢ with "1.090¢".

No other changes are required.

Q DO YOU HAVE ANY OTHER CORRECTIONS TO YOUR DIRECT TESTIMONY AND SCHEDULES?

A No, I do not.

Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A I wish to respond to the rebuttal testimonies of Central Illinois Light Company (CILCO) witnesses Mr. Robert G. Ferlmann and Mr. Glenn L. Davidson. I also wish to respond to the direct testimonies of Illinois Commerce Commission (ICC or Commission) Staff witness Mr. Bruce A. Larson and Citizens Utility Board (CUB) witness Mr. George Sterzinger.

In regard to the rebuttal testimony of Mr. Ferlmann, I will specifically respond to:

1. Mr. Ferlmann's explanation of CILCO's choice of an average of a five-year forward price curve for the cost of additional energy that CILCO is required to purchase to meet its load forecast;

2. Mr. Ferlmann's explanation of why CILCO is proposing to adjust the rate under the Central Illinois Public Service (CIPS) contract upward from the actual rates under the contract with CIPS; and

3. Mr. Ferlmann's criticism of my recommended use of historical market prices as one input into the development of a forward price curve for energy CILCO is required to purchase in addition to the CIPS contract during the 12-month test period.

My response to Mr. Davidson's rebuttal testimony is limited to the subject of economy energy purchases.

My response to Mr. Larson's direct testimony is limited to the subjects of the price of purchased power during the test period and the Freeman United Coal Mining Company (Freeman) coal contract for Duck Creek.

My response to Mr. Sterzinger's direct testimony is limited to the subjects of the price of energy under the CIPS contract during the test period and using two seasonal fixed electric fuel adjustment charge values in place of a single fixed value.

I would note that my silence on any aspect of the testimony of another party should not be interpreted as a tacit endorsement of that party's position on an issue.

Response to Mr. Ferlmann's Rebuttal Testimony

Q PLEASE EXPLAIN MR. FERLMANN'S POSITION ON HIS CHOICE OF AN AVERAGE OF A FIVE-YEAR FORWARD PRICE CURVE FOR PURCHASED POWER REQUIRED IN ADDITION TO THE CIPS CONTRACT DURING THE 12-MONTH TEST PERIOD.

A Mr. Ferlmann indicates that he used a five-year period to calculate the cost of energy CILCO is required to purchase in addition to the CIPS contract because CILCO cannot request the reinstatement of the Fuel Adjustment Clause (FAC) for five years.

He claims the use of that five-year period is appropriate to calculate "the reasonable, prudent and necessary jurisdictional power supply costs" during the projected 12-month period, as specified in statute. (Ferlmann Rebuttal at 1)

Q HOW DO YOU RESPOND TO MR. FERLMANN?

A Mr. Ferlmann has not established a nexus between the 12-month test period required by statute and the five-year period during which CILCO will be banned from reinstating the FAC. The statute does not call for a five-year test period. As I indicated in my direct testimony, Section 9-220(d) of the Public Utility Act (ILCS 5/9-220(d)) states the Commission will allow recovery of ". . . the reasonable, prudent and necessary jurisdictional power supply costs or gas supply cost incurred or to be incurred by the public utility during a 12-month period found by the Commission to be appropriate for these purposes . . ." More explicitly, Mr. Ferlmann does not claim the five-year forward price curve represents power supply costs to be incurred by CILCO during the 12-month test period. Rather, Mr. Ferlmann openly admits that CILCO is trying to recover costs based on the average price they expect over the five-year period in which CILCO cannot reinstate its FAC.

Q PLEASE EXPLAIN MR. FERLMANN'S POSITION ON WHY CILCO IS PROPOSING TO ADJUST THE ACTUAL PRICE FOR ENERGY UNDER THE CIPS CONTRACT UPWARD DURING THE 12-MONTH TEST PERIOD.

A Mr. Ferlmann argues that CILCO should not be required to base its purchased power costs under the CIPS contract during the 12-month test period on the $24 energy charge in the CIPS contract when it is known that the contract will be in place only through 2003 or 60% of the five-year period during which CILCO cannot reinstate the FAC. To reflect this fact, Mr. Ferlmann indicates that CILCO only included 60 MW of

the 100 MW provided under the CIPS contract in the calculation of the purchased power costs, with the balance priced using the average of CILCO's five-year forward price curve. (Ferlmann Rebuttal at 1-2)

Q HOW DO YOU RESPOND TO MR. FERLMANN'S ARGUMENTS?

A As with the energy purchases CILCO is required to make in addition to the CIPS contract, CILCO is attempting to use a five-year test period for prices rather than the 12-month period. If CILCO has a great deal of concern with the fact that the CIPS contract will not be available after 2003, it has the option to withdraw its filing in this proceeding and refile to eliminate its FAC and incorporate appropriate fuel charges into base rates at a future time when it can propose a 12-month test period that occurs after deliveries under the CIPS contract expire. Otherwise, the actual price under the CIPS contract should apply during the 12-month test period since it is part of the actual power supply costs to be incurred during the 12-month period. Costs to be incurred after 2003 will not be incurred during the 12-month test period as proposed by CILCO.

Q PLEASE EXPLAIN MR. FERLMANN'S CRITICISM OF YOUR USE OF HISTORICAL PRICES AS ONE INPUT TO THE DEVELOPMENT OF THE 12-MONTH FORWARD PRICE CURVE YOU HAVE PROPOSED.

A Mr. Ferlmann claims my approach is inconsistent because while I take the position that CILCO should not use anything other than projections for the actual 12-month period, I have used historical prices as a proxy for the projections. He goes on to claim that using historical prices is not an appropriate proxy for future costs of power and energy during the proposed test period when the cost of purchased power is accelerating and future prices are available. (Ferlmann Rebuttal at 4-5)

Q HOW DO YOU RESPOND TO MR. FERLMANN ON THESE POINTS?

A First, I disagree with Mr. Ferlmann when he says I used historical prices as a proxy for the test period. What I did was use historical prices to temper futures prices in order to create a more reliable projection of the cost of CILCO's purchases of energy that it needs to make in addition to the CIPS contract during the 12-month test period. I said projections should be used and I used a projection that, as I will explain shortly, is much more likely to be reliable than using futures, or even bilateral forward, prices alone. I have been fully consistent in my approach. This contrasts strongly with CILCO's recommendation to use its projection of purchased power costs over the five-year period during which it cannot reinstate its FAC rather than a projection of purchased power costs during the 12-month test period.

Q PLEASE EXPLAIN WHY YOUR PROJECTION OF COSTS FOR POWER PURCHASED BEYOND THE CIPS CONTRACT DURING THE TEST PERIOD IS MORE RELIABLE THAN USING FUTURES OR FORWARDS PRICES ALONE FOR THE TEST PERIOD.

A First, as I indicated in my direct testimony, NYMEX futures alone do not provide a very good forecast of prices. As of August 26, 1999, NYMEX futures contracts predicted an average on-peak energy price for Cinergy of $46.28 per MWh for the period of September 1999 through August 2000. However, actual historical prices for on-peak energy for Cinergy for the same period were reported at $29.19 per MWh on average. (IIEC Exhibit 1.0 at 6)

Second, contrary to the rebuttal testimony of Mr. Ferlmann (Ferlmann Rebuttal at 3), forward contracts are <u>not</u> the only way CILCO could purchase the required energy and are <u>not</u> highly indicative of where CILCO would buy energy when required to meet its load forecast in excess of the energy provided by its own generation and

the CIPS contract. As explained in Mr. Ferlmann's direct testimony in Docket No. 99-0468 (see IIEC Rebuttal Schedule 1 at 12-13), CILCO was faced with choosing two different energy pricing options for capacity contracts to serve its bundled retail customers during the summer of 1999 (Id.). One option involved purchasing take-or-pay on-peak energy at a fixed price in advance for the entire summer period (Id.). This option would amount to buying the energy in a forward contract (Id.). The other option was to purchase take-or-pay on-peak energy on a day-to-day basis at a price quoted a day before delivery (Id.). Mr. Ferlmann referred to this latter option as "market-based pricing" (Id.). Mr. Ferlmann indicated that for the summer peak months of July and August alone, "market-based pricing" was by far cheaper than the forward pricing option. As documented in response to Commission Staff Data Request No. ENG 1-67 in Docket No. 99-0468 (see IIEC Rebuttal Schedule 2), CILCO compared futures prices for July and August of 1999 against historical prices for the period of July and August of 1998 in arriving at this conclusion.

CILCO is faced with the same choice for energy purchases for the 12-month test period in this case as it was facing with its contracts for the summer of 1999. There is no reason why CILCO would not consider opting for day-to-day market pricing over forward pricing as it has in the past. Contrary to Mr. Ferlmann's rebuttal testimony (Ferlmann Rebuttal at 3), CILCO would as in the past possibly risk energy prices of $1,000 per MWh or more on certain isolated days since it would likely continue to be cheaper than paying high futures prices for a take-or-pay on-peak block of energy for an entire season.

Finally, I disagree with Mr. Ferlmann's statement: ". . . the cost of purchased power is accelerating . . ." (Ferlmann Rebuttal at 5). As reported by *Power Markets Week*, historical average on-peak prices for September 1998 through August 1999 for Cinergy were at $52.39 per MWh, while prices for September 1999 through August

2000 were at $29.19 per MWh. This is a downward trend – not an accelerating trend. Also, as shown by the North American Electric Reliability Council (NERC) Reliability Assessment 2000-2009[1] published in October 2000, capacity margins are on the rise in the Eastern Interconnection in which CILCO is located (see IIEC Rebuttal Schedule 3, Figure 9 at 17). Rising capacity margins mean the supply in excess of demand is rising and market prices should be on a downward trend.

Response to Mr. Davidson's Rebuttal Testimony

Q PLEASE EXPLAIN MR. DAVIDSON'S POSITION ON THE SUBJECT OF ECONOMIC PURCHASES OF ENERGY.

A In his rebuttal testimony, Mr. Davidson asserts that CILCO does not expect to make any economy purchases of energy in the future because economy power is no longer an available commodity. He goes on to indicate that providers of wholesale power now sell power and energy at market price and CILCO has not found market price to be below CILCO's own cost of generation. (Ferlmann Rebuttal at 5)

Q HOW DO YOU RESPOND TO MR. DAVIDSON?

A As a minimum, CILCO does still make economy energy purchases under agreements with CIPS, City, Water Light and Power (CWLP), Commonwealth Edison Company and Illinois Power Company. According to CILCO's FERC Form 1 filing, CILCO in 1999 purchased 272,023 MWh of economy energy from these four entities alone at

[1] NERC produces this assessment from data they receive from the individual reliability councils, including the Mid-American Interconnected Network (MAIN), of which CILCO is a member. MAIN obtains the information submitted to NERC from its members, including CILCO.

an average price of $27.06 per MWh (see IIEC Rebuttal Schedule 4). This is significantly lower than the average on-peak market price for electricity for Cinergy in 1999, which was reported to be $51.59 per MWh on average by *Power Markets Week*. Therefore, as a minimum, CILCO has been able to purchase substantial quantities of economy energy from its immediate neighbors.

I would also note that CILCO indicated in response to IIEC Data Request No. 5 of the fifth set of IIEC data requests in Docket No. 99-0468 (see IIEC Rebuttal Schedule 5) that the ". . . availability of [economy] energy, which costs less than hourly operating costs, is usually greater during the low usage or off-peak time periods." This is to say these purchases would most likely occur during off-peak periods not during periods of high market prices. In response to this same data request, CILCO indicated that it ". . . purchases economy energy, when available and usable." Therefore, economy energy will be available even with high market prices and CILCO will continue to purchase such energy during hours when it is available.

Q HOW DO YOU RECOMMEND THE COMMISSION ADDRESS YOUR CONCERN?

A The Commission should require CILCO to identify its savings from economy energy purchases during the 12-month historical period and require CILCO to make a reasonable projection of those savings during the 12-month test period CILCO has proposed. CILCO's proposed fixed electric fuel adjustment charge should be reduced to reflect a reasonable projection of its savings from economy energy purchases during the proposed 12-month test period.

Q PLEASE EXPLAIN HOW CILCO'S SAVINGS FROM ECONOMY ENERGY PURCHASES COULD BE CALCULATED FOR THE 12-MONTH HISTORICAL PERIOD.

A On an hour-to-hour basis, CILCO must evaluate its options to purchase economy energy versus the cost to produce that energy from its own generating facilities. Therefore, it is likely CILCO has either retained written or electronic records documenting the generation costs it anticipated it would have avoided related to its own generation facilities when it made an economy energy purchase instead. With this information in hand, it would be possible to calculate CILCO's savings for each economy energy purchase made during the 12-month historical period.

Q WHAT IF CILCO SAYS THAT IT IS NOT PRACTICABLE FOR IT TO MAKE A REASONABLE PROJECTION OF ECONOMY ENERGY PURCHASE SAVINGS DURING THE 12-MONTH TEST PERIOD?

A The economy energy savings from the 12-month historical period could be used as a reasonable proxy for the 12-month test period. As I have indicated, CILCO has made such purchases in the past and it is reasonable to assume it will make similar purchases during the 12-month test period. However, as a minimum, CILCO should be able to use the multi-area capability of the ENPRO program to represent neighboring utilities and automatically model economy energy transactions during the test period. Cost information for neighboring utility system generation and purchased power contracts for use in the ENPRO program could be derived from sources such as FERC Form 1 filings and hourly load data from such sources as FERC Form 714. Therefore, the Commission has this option by which to determine the economy energy savings during the 12-month test period.

Response to Mr. Larson's Direct Testimony

Q MR. LARSON TAKES ISSUE WITH THE USE OF THE PRICE OF PURCHASE POWER INCLUDED IN THE 12-MONTH TEST PERIOD. DO YOU HAVE ANY RESPONSE?

A Yes. As I testified in my direct testimony and as well in this testimony, it is inappropriate for CILCO to include anything but the actual cost of purchased power reasonably anticipated to be incurred in the 12-month test period. Mr. Larson is correct in his ascertainment that the 100 MW purchase by CILCO under the CIPS contract includes a fixed energy charge of $24 per MWh, and it is this price that should be included in the 12-month test period.

Q PLEASE EXPLAIN MR. LARSON'S POSITION ON THE FREEMAN COAL CONTRACT FOR CILCO'S DUCK CREEK GENERATION FACILITY.

A In his direct testimony, Mr. Larson disagrees with CILCO's estimated prices for coal purchased from Freeman for Duck Creek during the test period. Mr. Larson further notes that CILCO is only required to purchase from Freeman the first 500,000 tons of coal required by Duck Creek. CILCO is only required to pay a profit adder to Freeman for the second 500,000 tons of coal provided for under the contract with Freeman. Mr. Larson indicates that even with the payment of the profit adder to Freeman, it would be cheaper to buy the second 500,000 tons of coal from another source than from Freeman. Mr. Larson also notes Freeman's price appears ripe for arbitration.

Mr. Larson recommends that during the test period, only the first 500,000 tons of coal should be taken from Freeman at a reasonable price of $1.64 per MBtu. The second 500,000 tons of coal should be assumed to be purchased from the Turris mine with a profit adder for this second 500,000 tons paid to Freeman. Mr. Larson

proposes applying a downward adjustment of $0.00273 per kWh to CILCO's proposed fixed electric fuel adjustment charge during CILCO's proposed test period of September 2000 through August 2001. (ICC Staff Exhibit 1.0 at 7-11, ICC Staff Exhibit 1.1)

Q HOW DO YOU RESPOND TO MR. LARSON?

A I agree with Mr. Larson's recommendation to reduce CILCO's proposed fixed electric fuel adjustment charge by $0.00273 per kWh during CILCO's proposed test period to reflect likely arbitration of the Freeman contract price and the sensible purchase of the second 500,000 tons of coal under the Freeman contract from another source.

CILCO should not be allowed to game the system by pocketing the results of arbitration with Freeman after the Commission has eliminated CILCO's FAC. Moreover, CILCO could similarly pocket the benefits of taking delivery of only the first 500,000 tons of coal under the Freeman contract after the FAC is eliminated. It is reasonable to assume CILCO will take these actions. Therefore, the proposed fixed electric fuel adjustment charge should be adjusted downward to reflect what should be prudent choices by CILCO.

Response to Mr. Sterzinger's Direct Testimony

Q MR. STERZINGER TAKES ISSUE WITH THE UPWARD ADJUSTMENTS MADE BY CILCO TO THE ENERGY PRICE UNDER THE CIPS CONTRACT. DO YOU HAVE ANY COMMENTS?

A Mr. Sterzinger and I both question the manner in which CILCO has adjusted the actual energy price under the CIPS contract upwards when determining its proposed fixed electric fuel adjustment charge based on the 12-month test period CILCO has proposed. (CUB Exhibit 1.0 at 7) In this respect, I agree with Mr. Sterzinger's

statements that the cost of purchased power should be based on the actual cost of CIPS' power during the 12-month test period and that the net effect of CILCO's proposal is to "collect a dollar now for anticipated costs it faces four to five years from now."

Q PLEASE EXPLAIN MR. STERZINGER'S POSITION ON USING TWO SEASONAL FIXED ELECTRIC FUEL ADJUSTED CHARGE VALUES IN PLACE OF A SINGLE FIXED VALUE APPLICABLE YEAR ROUND.

A Mr. Sterzinger indicates that the use of a single fixed electric fuel adjustment charge for the entire year does not track the CILCO cost of power, which CILCO has shown to be extremely sensitive to peak and seasonal usage. Mr. Sterzinger recommends that the base rates be adjusted on a seasonal basis as a step toward sending the proper price signals to consumers. On Page 4 of his direct testimony, Mr. Sterzinger suggests a summer period of June through August be used. Unfortunately, Mr. Sterzinger inconsistently recommends a summer period of June through September on Page 12 of his direct testimony. IIEC has sent a data request to CUB asking Mr. Sterzinger to clarify which summer period he is recommending. Regardless of the definition of the summer period, Mr. Sterzinger would assign all remaining months of the year to a winter period.

Q HAVE ANY OF CILCO'S WITNESSES COMMENTED ON MR. STERZINGER'S PROPOSAL?

A Mr. Ferlmann in his rebuttal testimony indicated CILCO supports using a seasonally differentiated fixed electric fuel adjustment charge with the summer period defined as June through September and the winter period defined as the remaining months of the year (Ferlmann Rebuttal at 3-4).

Q HOW DO YOU RESPOND TO MR. STERZINGER ON THIS ISSUE?

A I agree that the fixed electric fuel adjustment charge should be seasonally differentiated. It is important for customers to see the cost implications of their actions in order to ensure economic efficiency. Seasonally adjusting the fixed electric fuel adjustment charge would be a step in this direction. However, I object to using a summer period of June through September, as proposed by CILCO and possibly CUB.

In my Schedule 4, I projected on-peak market prices for the 12-month test period as explained in my direct testimony (IIEC Exhibit 1.0 at 6) as follows:

Month	Projected Market Price (per MWh)
September	$28.63
October	$24.87
November	$24.01
December	$24.19
January	$30.06
February	$28.33
March	$25.98
April	$28.21
May	$39.55
June	$51.73
July	$77.38
August	$81.20

Clearly, June, July and August stand out as high cost months. However, the September price of $28.63 per MWh is below the projected prices for January and May. Clearly, for purposes of the fixed electric fuel adjustment charge, September should be considered a winter month. Therefore, I recommend that the Commission adopt a seasonally differentiated fixed electric fuel adjustment charge with a summer

period of June through August and a winter period consisting of the remaining months of the year.

Summary of IIEC Recommendations

Q BASED ON YOUR REVIEW OF THE DIRECT AND REBUTTAL TESTIMONIES OF CILCO AND THE DIRECT TESTIMONIES OF ICC STAFF AND CUB, PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COMMISSION.

A If the Commission chooses to adopt a single fixed electric fuel adjustment charge, the Company's proposed value should be adjusted downward as follows:

1. 0.091¢ per kWh to reasonably reflect the cost of energy CILCO will need to purchase to meet its forecasted load in addition to the energy available from its own generation assets and the CIPS contract during the 12-month test period.

2. 0.074¢ per kWh to correct for CILCO's inappropriate upward adjustment of the price for energy under the CIPS contract during the 12-month test period.

3. An adjustment to reflect a reasonable projection of CILCO's savings from economy energy purchases during the 12-month test period, calculated in the manner I recommend.

4. 0.273¢ per kWh to reflect a reasonable price for coal for CILCO's Duck Creek generation facility as recommended by ICC Staff witness Mr. Larson.

5. Any adjustments that may be necessary to conform with the final outcome of Docket No. 99-0468, as commented upon by several witnesses in this proceeding.

Commission adoption of the recommendations would reduce CILCO's proposed fixed electric fuel adjustment charge from 1.255¢ per kWh to a maximum of 0.817¢ per kWh. Other witnesses are recommending other adjustments as well which the Commission will need to consider.

If the Commission chooses to accept my recommendation of using a seasonally adjusted fixed electric fuel adjustment charge with a summer period of June through August and a winter period consisting of all other months, my recommended adjustments would be as follows:

Adjustment #	Description	Downward Adjustment (per kWh) Summer	Winter
1	Purchases Required in Addition to CILCO Generation and CIPS Contract	0.244¢	0.026¢
2	CIPS Contract	0.227¢	0.009¢
3	Economy Purchases	To be determined	To be determined
4	Duck Creek Coal	0.252¢	0.282¢
5	Docket No. 99-0468	To be determined	To be determined

The calculation of these seasonal downward adjustments can be found in IIEC Rebuttal Schedules 6 through 8 (**Confidential**). If CILCO's proposed fixed electricity fuel adjustment charge of 1.255¢ per kWh is seasonally differentiated without my downward adjustments, the summer value would be 1.797¢ per kWh and the winter value would be 1.025¢ per kWh (see IIEC Rebuttal Schedule 9, **Confidential**). With all of my recommended seasonal downward adjustments applied, CILCO's fixed electricity fuel adjustment charge would be a maximum of 1.074¢ per kWh in summer and 0.708¢ per kWh in winter.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes, it does.